

# The American Economy in 1963

BY most measures the performance of the American economy in 1963 was outstanding. Production and sales rose by sizable amounts to new records. The output increase was accomplished with comparatively little rise in the price level and led to new peaks in employment and a record flow of income—both wages and profits.

All major markets shared in last year's output advance. No single element of demand was dominant, although durable goods, notably automobiles, and construction, especially residential building, were particularly strong. The course of activity was upward throughout the year, in spite of the dampening effects of a sharp reduction in steel production that followed the spring wage settlement and lasted almost two quarters.

The upturn in business that began in early 1961 has now lasted almost 3 years, a comparatively long time judged by historical standards, and the year 1964 starts off with rising activity. Measured from the previous trough, the increase in GNP up to the final quarter of 1963 has been considerable—approximately \$100 billion. The record of 1963 is no less impressive when compared with 1960, the previous cyclical peak. The 12 percent increase in real output over these 3 years represents a distinct improvement as compared with that from 1957 to 1960. However, these periods are too short and not sufficiently free of cyclical movements to warrant definitive conclusions regarding basic growth trends.

Despite the impressive achievements of 1963, the fundamental problems that

have beset the economy in recent years were still present. Although employment rose by approximately 1 million over 1962, the labor force grew somewhat more and slightly more persons were out of work as compared with a year earlier. The problem was particularly serious for the young and inexperienced in the labor force, whose numbers were rising more rapidly as a result of the baby boom of the war and early postwar period. There were, moreover, significant numbers of families and individuals who did not share in the Nation's prosperity and whose continued low levels of education, training, and living standards posed an important and difficult problem for solution.

Table 1.—Selected Economic Measures, 1962-63

	1962	1963	Percent change
Gross national product..... bil. \$.	564.9	585.0	3.4
GNP in constant 1958 dollars..... bil. \$.	563.6	585.0	3.8
National income..... bil. \$.	453.7	478.4	5.4
Corporate profits before taxes..... bil. \$.	40.8	51.7	10.5
Personal income..... bil. \$.	442.1	468.0	5.7
Retail stores sales..... bil. \$.	336.4	347.0	3.0
Dealers' domestic sales of new cars..... thous.	6,703	7,334	9.4
Expenditures for new plant and equipment..... bil. \$.	37.31	39.08	4.7
Total construction..... bil. \$.	59.0	62.3	5.6
Private nonfarm housing starts..... thous. units.	1.44	1.56	8.3
Manufacturers' sales..... bil. \$.	399.7	414.4	3.6
Industrial production..... 1957-59=100.....	118	124	5.1
Steel production..... millions.....	16.3	109.3	11.2
Employees in nonfarm establishments..... thous.	55,841	57,132	2.4
Unemployment..... thous.	4,007	4,106	2.5
Consumer prices..... 1957-59=100.....	105.4	106.7	1.2
Wholesale prices..... 1957-59=100.....	100.6	100.3	-.3
Loans and investments of commercial banks, end of year..... bil. \$.	228.1	246.3	8.0
Consumer installment credit outstanding, end of year..... bil. \$.	48.0	53.7	11.9

<sup>1</sup> Preliminary.

<sup>2</sup> Estimated.

The Nation's international accounts were still out of balance in 1963, in spite of continuing efforts aimed at reducing the adverse balance. Although some improvement was evident after midyear for the first three quarters of 1963 the deficit in the balance of payments exceeded the prior-year total.

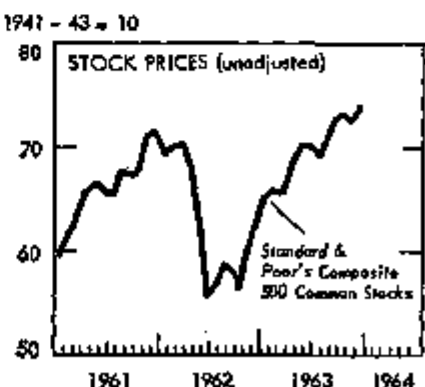
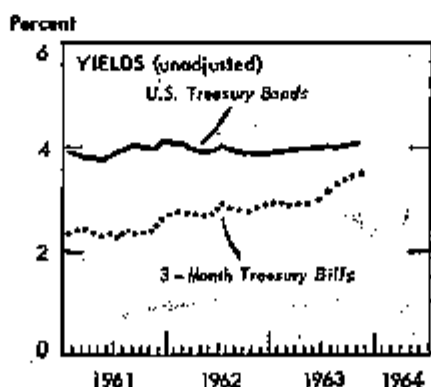
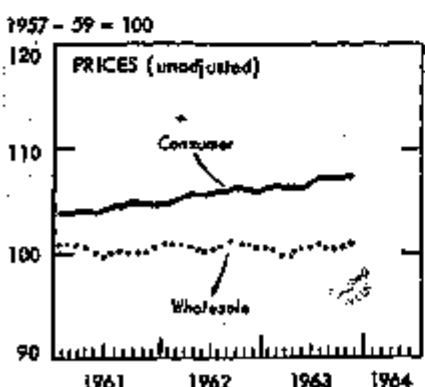
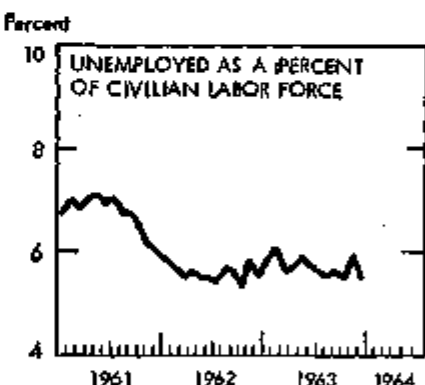
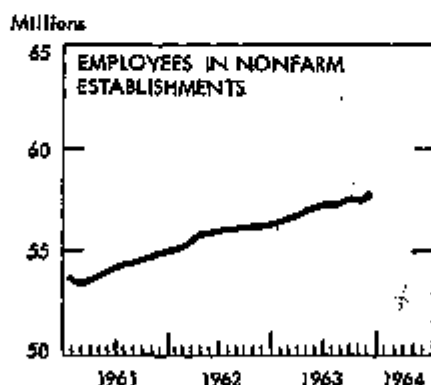
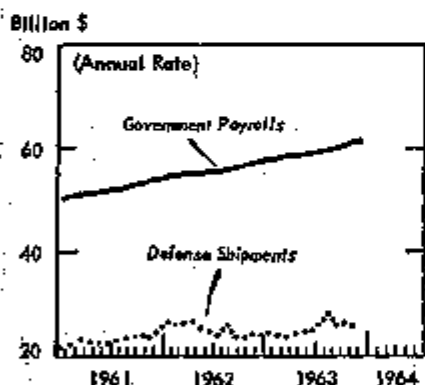
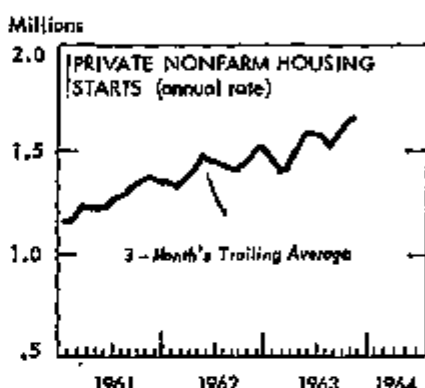
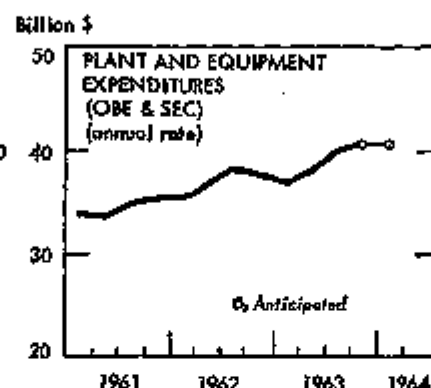
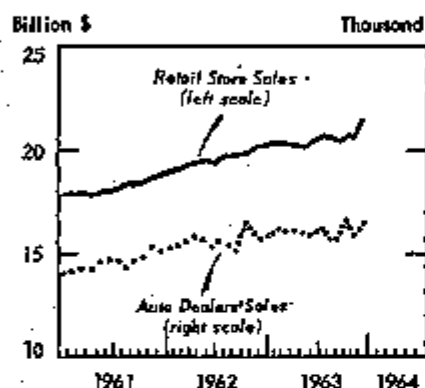
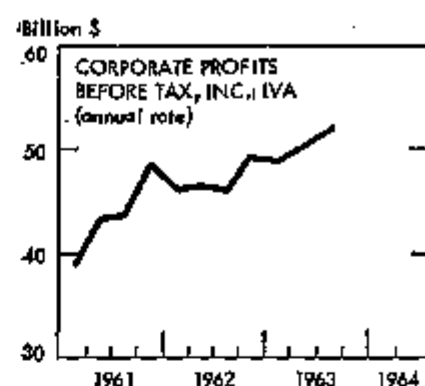
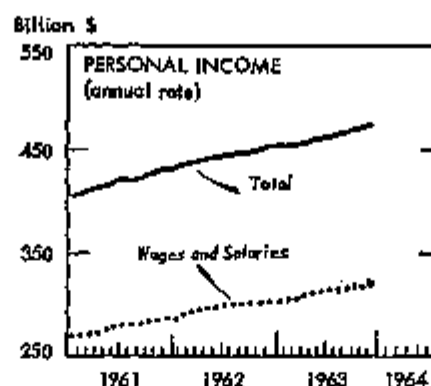
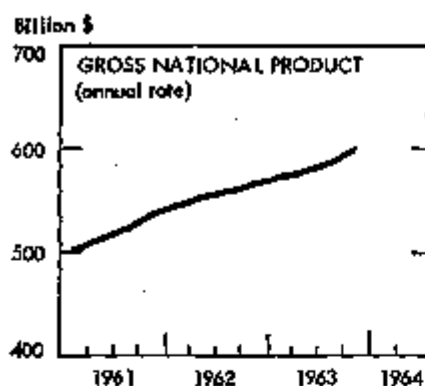
## Yearend position

As the year came to a close, demand, production, and incomes were rising, and, with a tax cut likely, the questions that were raised about 1964 sales and output were concerned with the size of the prospective rise rather than with the direction of change.

Consumer markets were particularly strong at yearend. Active holiday buying made December retail trade the best on record—6 percent above December 1962—and raised sales some 4½ percent above the seasonally adjusted November rate. Retail buying in that month had slumped sharply following the death of President Kennedy. Non-durable goods sales moved considerably higher in December, after having changed comparatively little over the previous 4 months. Automobile sales were at approximately peak rates after a good but much less buoyant November.

Underlying the favorable retail trade performance in December was a sizable pickup in personal income, which rose to more than \$475 billion, at an annual rate. This was a rise of some \$2½ billion over November and \$23 billion over the December 1962 total. Wages and salaries were up about \$1 billion over the month, and dividends by \$1.3 billion, as a result of heavy yearend payments. The second step of a Federal

# THE ECONOMY IN THREE YEARS OF UPTURN



Government pay increase became effective at the start of 1964 and is estimated to boost personal income by \$0.4 billion at an annual rate. Another accelerated dividend payment to holders of GI life insurance—\$234 million—was also scheduled to start in January.

Business plant and equipment expenditures, according to the December OBE-SEC investment survey, were scheduled to rise moderately in the first half of 1964. Housing expenditures were very large in the final quarter of 1963, and building permits in December were at the best rates of the year. The strength in housing was concentrated in multifamily units.

Additions to business inventories were somewhat higher in the fourth quarter of the year than in the two preceding quarters but overall there was no excessive accumulation. Indeed, business inventory policy continued to be

conservative as supplies were readily available and prices comparatively stable. With steel consumption rising, the excess of steel inventories that had caused the decline in steel production earlier in the year had largely disappeared. Automobile stocks at retail were somewhat higher in December than at the end of September but many prospective purchasers were still required to wait several weeks for deliveries of the more popular models.

State and local government expenditures rose in the last quarter of 1963 and further increases in 1964 were in prospect. Federal purchases were also expected to increase in the first half of the coming year. The larger new prospects for Federal purchases will be discussed in the February issue of the SURVEY, when the detailed budget estimates have been analyzed.

Prices in wholesale industrial markets, particularly in durable goods, were a bit firmer at yearend than they had been during the year as a whole. Farm prices were somewhat weaker than they had been a year earlier but consumer prices continued their very slow upward movement.

With business prospects favorable, common stock prices were bid up to peak levels late in the year. Despite dividend increases through 1963, dividend yields were not much higher than at the end of 1961. Money markets were not quite so easy as in the first half of 1963, as balance of payments considerations caused the monetary authorities to move slightly away from a policy of ease and exert upward pressure on short-term interest rates. With investment demand moving higher, there was evidence of some firming in long-term rates.

## The Balance of Payments

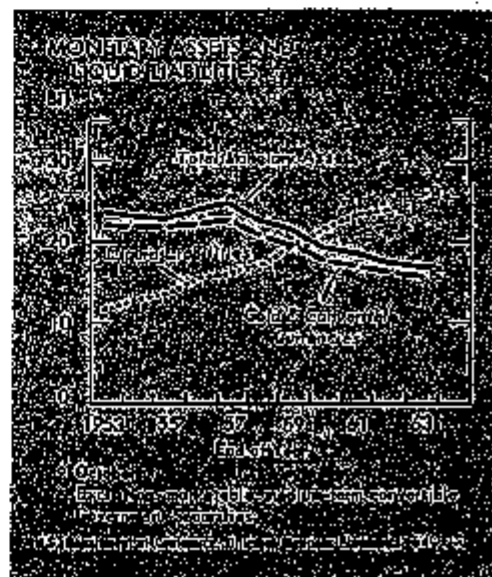
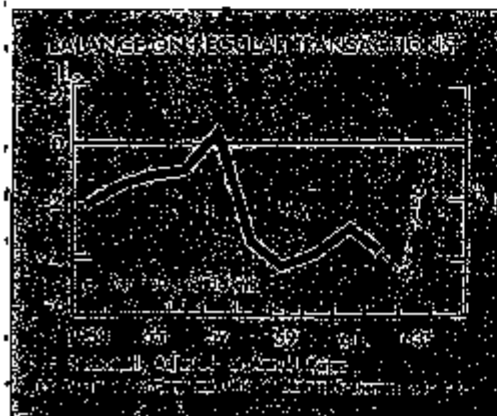
THE balance of payments during the year 1963 was characterized by sharp changes. In the first half of the year, particularly during the second quarter, the balance was very unfavorable. In the third quarter it improved markedly, and this improvement was reasonably well maintained in the fourth. The change in the middle of the year resulted in part from remedial actions taken by the Government and

the Federal Reserve authorities and in part from other favorable developments. The latter included the effects of bad weather conditions in certain countries last year which led to higher exports of U.S. agricultural products and fuels. The initial effects of the remedial actions, which substantially reduced net capital outflows, were stronger than they can be expected to be in the long-run; the higher foreign demand for agricultural products and fuels also reflects to a large extent special conditions.

For the year as a whole, the adverse balance on "regular" transactions was still within but close to the lower part of the range of about \$3 to \$4 billion within which it has fluctuated during the 5 years since 1958.

Aside from the sharp improvement in the balance during the second half of the year, an additional favorable development was the decline in the loss of monetary reserve assets—from \$1.5

billion in 1962 to about \$400 million in 1963. Gold losses dropped from \$890 million to about \$460 million and were less than in any year since 1958. One of the factors lessening the foreign demand for U.S. gold was the rise in



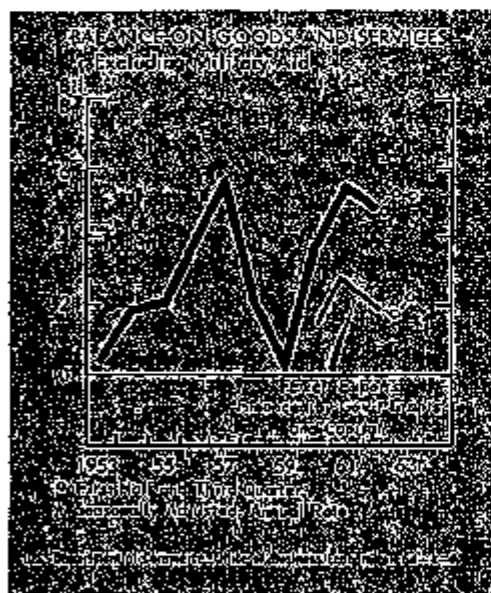
gold sales by the Soviet Union to finance Soviet bloc purchases of agricultural products, but the favorable result on the U.S. gold position could not have been achieved without the increasing cooperation between the monetary authorities of the leading countries in international financial transactions.

Because special payments by foreign countries to the United States (such as advance debt repayments, advances on military contracts, and purchases of nonmarketable securities) were much smaller than the \$1.4 billion in 1962, the balance that had to be financed by an increase in U.S. liquid liabilities was considerably higher in 1963 than in the previous year.

Net exports of goods and services in 1963 were larger than in the previous year, but the surplus did not quite

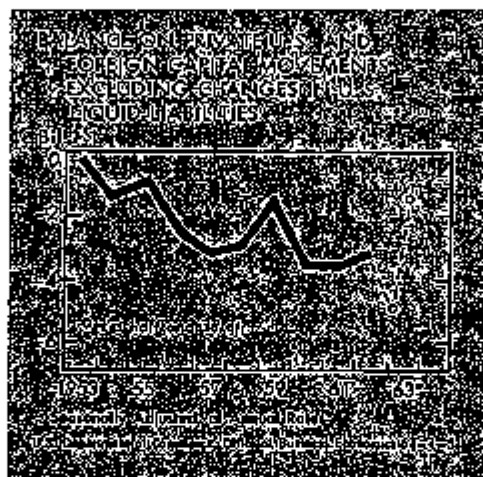
chandise imports, a rise in exports, and a major increase in net receipts from investment incomes. In contrast, the 1963 balance improved even though imports were rising and investment incomes advanced at a much slower rate. The expansion of this balance in a period of rising domestic business activity may be an indication that the U.S. position in international markets for goods and services has been strengthening. While this interpretation appears to be supported also by other evidence, the special influences that helped to increase exports of U.S. agricultural and fuel products last year should be kept in mind.

In part it was due to a rise in capital outflows to other countries through security purchases and direct investments. The various measures taken in the summer of 1963 to change the incentives for investments in favor of this country helped to reduce the capital outflow for the year as a whole to the level of previous years.

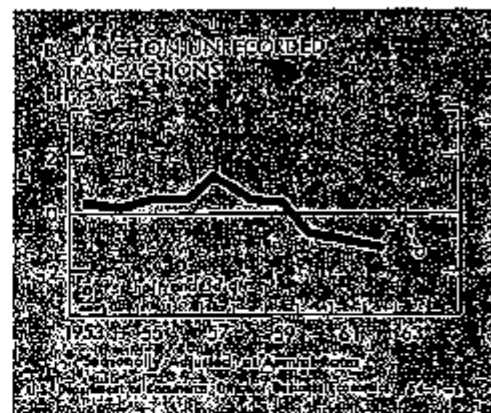


attain the amount it was in 1961, particularly if Government financed exports are not included.

The large balance in 1961 had come about mainly from a decline in mer-



The rise in the adverse overall balance of payments in the first half of 1963 and the subsequent decline were due mainly to changes in private capital movements. The annual net outflow of capital had risen into the \$3 billion range in 1957, and, with the exception of 1959, remained in that range. In the first half of 1963 it was at a considerably higher rate than previously experienced. In part the increase compensated for somewhat lower outflows in the preceding year, particularly to Canada.



The balance on unrecorded transactions improved sharply in the first half of 1963, but in the third quarter reverted back to a debit balance. As the chart indicates, since 1957 the annual balances have shifted gradually from net credits to net debits, but in 1963 this movement appears to have been halted or perhaps even reversed. Since the nature of the unexplained residual in the balance of payments compilations is not known, it cannot be determined whether the change for 1963 as a whole is temporary or whether it reflects more lasting factors.

At yearend the balance of payments situation appeared more favorable than at the end of any of the preceding 5 years. Since the recent improvement is in part due to transitory developments, however, it would be premature to conclude that efforts to improve the balance can be relaxed.

# National Income and Product in 1963

## A Year of Sustained and Balanced Expansion

Some of the 1963 data on the national accounts presented in this issue are preliminary. The more complete set of tables with revised figures will appear as usual in the February issue of the *Survey*.

**G**ROSS national product continued to expand throughout 1963, totaling \$585 billion for the year as a whole. This was a gain of \$30 billion or nearly 5% percent from 1962. With prices continuing to rise at the relatively slow pace of 1½ percent per year, the volume of national production was almost 4 percent higher. Even though this rate of gain was above the long-term average, it still was not large enough to reduce significantly the volume of idle resources.

Within the year, the rise in gross national product was both steady and well balanced, with demand higher and rising in most major final markets. Inventory accumulation remained modest throughout the year; profits rose further as margins continued about stable; there were moderate increases in employment and wage and salary payments; although Federal expenditures exceeded receipts throughout the year, the deficit tended to become progressively smaller.

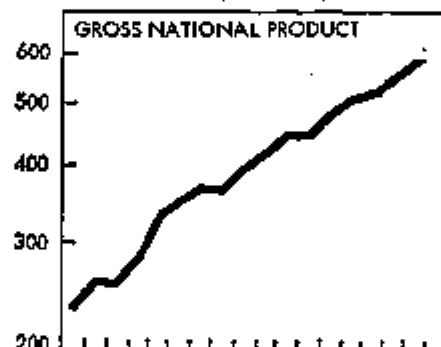
GNP rose by \$11½ billion in the closing quarter of 1963 to reach an annual rate of \$600 billion, nearly \$35 billion above the year earlier level.

In real terms, output in the closing quarter of last year was up 4 percent from the like quarter of 1962, 15½ percent from the recession low and 13½ percent above the previous peak. These gains exceeded those in each of the two previous economic expansions.

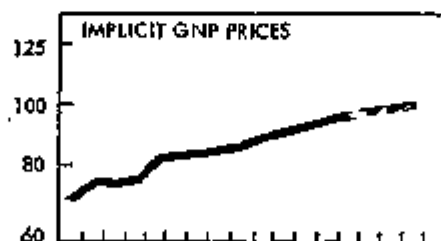
The fourth quarter advance, the largest in 2 years, reflected increased demand in most final markets. Consumer expenditures rose by \$5 billion, of which automobiles accounted for \$1½

billion. Service expenditures were also up for the quarter, but nondurable goods expenditures were little changed despite a sharp pickup in December.

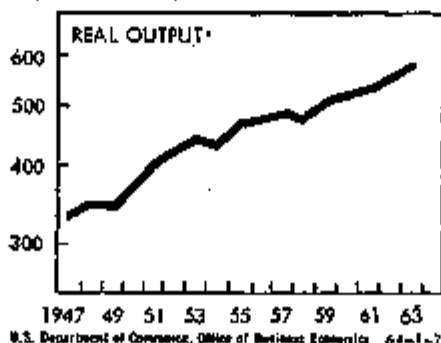
GNP CONTINUES TO ADVANCE IN 1963  
Billions of Current \$ (ratio scale)



Index 1963=100



Billions of 1963 \$



U.S. Department of Commerce, Office of Business Economics 64-1-7

Private investment was up by \$3½ billion, with residential construction, plant and equipment outlays and inventory investment all participating in the rise. Net exports were up \$1 billion from the third quarter. The larger part of a \$2½ billion increase in government purchases was accounted for by State and local governments.

### Major 1963 developments

There were noteworthy gains during 1963 in the cyclically sensitive markets: consumer durables—in particular, automobiles—residential construction and business fixed investment. Final demand in the trend-dominated markets—consumer nondurables and services, and State and local government—continued to expand about as usual. In addition, Federal purchasing advanced. On the other hand, the overall pace of inventory building was little changed from 1962.

Advances in final markets were so general that the four major types of product—durable goods, nondurable goods, construction, and services—all shared in the production rise. Judged by past business recoveries, the strong increase in durable goods output was striking; prior increases in durable goods output had been sharp in the early stages of expansion, and modest thereafter.

Paralleling the rise in gross national product, national income rose nearly \$25 billion to a total of about \$478 billion for the year. The gain was widespread by type of income and by industry. There was a particularly

large advance in corporate profits and both private and government wage and salary payments increased substantially. The continued rise in business activity resulted in some gain in nonfarm proprietors' income, but farm proprietors' income did not quite match the 1962 total.

On an industry basis, the recent national income gains were centered in the

cyclically volatile commodity producing and handling sectors. Income and output also continued to increase during 1963 in the trend-dominated service-type industries.

Personal income, at \$463 billion in 1963, was up \$21 billion or nearly 5 percent from 1962. Income after taxes increased by \$18 billion to total \$403 billion for the year.

## Market Pattern of 1963 Advance

WITH incomes higher and consumers making increased use of credit, personal consumption expenditures rose to \$373 billion, a gain of \$17½ billion or about 5 percent.

### Consumer durables up

The increase of nearly \$2 billion in consumer spending on new autos was the major factor in the \$3½ billion or 6½-percent rise of personal consumption expenditures for durable goods. Following a sharp advance early in the fourth quarter of 1962, when the new 1963 models were introduced, car sales continued high throughout 1963. A small dip occurred late in the third

quarter when dealer inventories became low and unbalanced, but, with the introduction of the 1964 models, sales jumped back in the closing quarter to reach their best pace of the year.

Home appliance and furniture demand also increased in 1963, aided in part by the high rate of home building activity during the last 2 years. Advancing strongly in the latter half of 1963, purchases of these items at \$21 billion, was \$1 billion, or 5½ percent over 1962. Sales of other durables continued their slow uptrend of recent years, advancing by about 4½ percent to a total of \$8 billion.

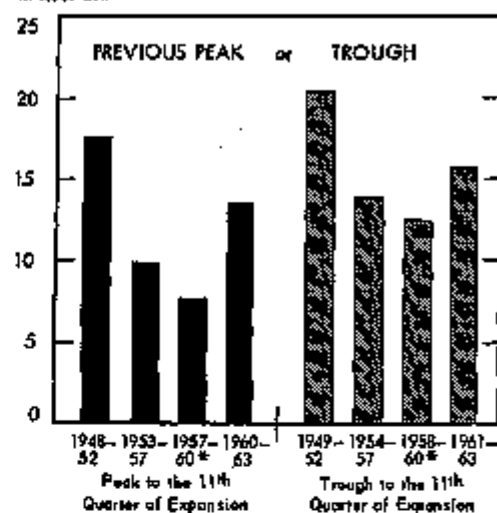
Table 1.—Key Income and Product Data, 1961-63  
(Billions of dollars)

	1961	1962	1963	Seasonally adjusted at annual rates				
				1962	1963			
					IV	I	II	III
Gross national product.....	518.2	554.3	585.0	565.2	571.5	579.5	588.7	590.0
Personal consumption expenditures.....	336.8	355.4	373.3	362.9	367.4	370.4	374.9	380.0
Durable goods.....	43.8	48.2	51.5	50.5	50.6	51.0	50.2	53.5
Non-durable goods.....	165.7	181.4	187.2	183.6	185.3	185.9	185.6	185.8
Services.....	128.0	125.7	134.6	128.8	131.4	133.5	138.1	140.7
Gross private domestic investment.....	88.6	78.5	82.3	78.8	77.8	80.7	83.7	87.0
Residential construction.....	21.0	23.2	25.0	22.7	22.7	24.8	25.9	26.7
Business fixed investment.....	45.0	50.0	52.5	51.1	51.0	51.7	53.8	55.0
Change in business inventories.....	1.9	5.5	4.7	4.0	5.1	4.3	4.2	5.3
Net exports of goods and services.....	4.4	3.8	4.4	3.3	3.6	4.2	4.3	5.0
Government purchases.....	107.0	117.0	125.1	120.3	123.0	123.9	125.7	128.0
Federal.....	57.4	62.4	66.4	63.6	65.5	65.5	66.4	67.0
State and local.....	49.6	54.6	58.7	56.7	57.5	58.4	59.3	61.0
Gross national product in constant (1962) dollars.....	531.2	561.5	585.0	571.4	575.7	580.8	587.5	595.7
National income.....	426.1	453.7	478.4	462.2	466.7	474.6	482.6	N.A.
Compensation of employees.....	202.1	222.9	240.4	227.7	232.0	238.7	242.8	247.9
Corporate profits.....	42.8	47.0	51.3	49.3	49.8	50.1	52.2	N.A.
All other.....	80.2	83.8	86.7	85.2	84.9	85.8	87.0	88.0
Personal income.....	417.4	442.1	463.6	449.9	453.9	459.9	465.2	475.0
Disposable personal income.....	354.4	384.4	402.0	391.4	394.5	400.0	404.4	411.5
Disposable income in constant (1962) dollars.....	373.5	399.5	402.6	394.6	396.1	400.4	403.6	408.2

<sup>1</sup> The figures for 1963 and its fourth quarter are based on incomplete data. Final figures in the usual amount of detail will be published in the February SURVEY.

The Current Expansion Has Been Stronger Than the Two Previous Postwar Upturns Whether Measured From:

Percent Increase in Real GNP



\* Through the cyclical peak, 9 qtrs. following the trough.

U.S. Department of Commerce, Office of Business Economics 64-1-2

### Nondurables and services also higher

Nondurable goods expenditures—although fluctuating somewhat erratically during the year—gained nearly \$6 billion to total \$167 billion in 1963. Food buying moved up by about 3 percent; about half of this increase was due to higher prices. There were sizable gains for gasoline and oil and for most other nondurables. Apparel purchases, on the other hand, were only slightly higher.

Consumer expenditures for services, continued to increase, about in line with the long-term growth. At \$154½ billion, consumer services were up by nearly \$9 billion. As in other recent years, these purchases moved up fairly smoothly and the 1963 gains were widespread among the major types of services.

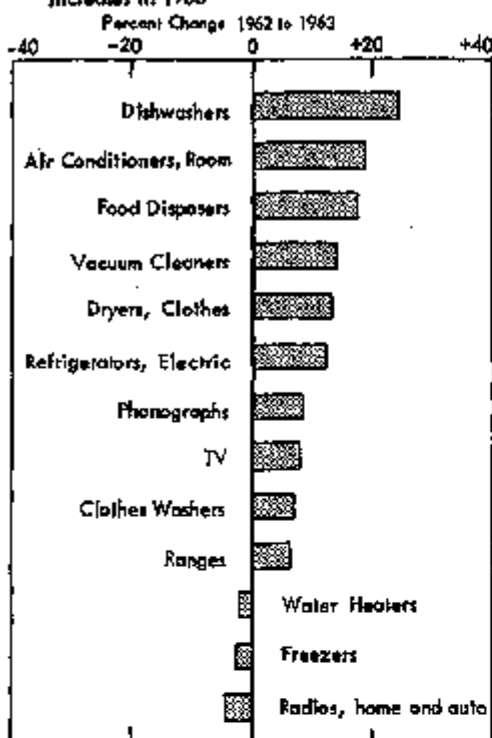
### Residential construction up sharply

Residential building moved steadily upward during 1963 to total \$25 billion for the year. This was a gain of \$2 billion, or 8 percent.

A total of more than 1½ million new private nonfarm units were started in 1963, nearly 125,000 or 8 percent above 1962. As in the preceding 2 years, multifamily units have accounted for all of the gain in housing starts. Last year roughly half a million multifamily dwelling units were started, more than

### MAJOR HOUSEHOLD GOODS

Output of Most Items Shows Sizeable Increases in 1963



Data: NEMA and Other Trade Associations

U.S. Department of Commerce, Office of Business Economics

64-1-9

double the 1960 total attained just before the upswing in apartment building began. In the single-family sector, starts held about steady just below 1 million units.

The abundance of mortgage money for both single and multifamily units, along with high and rising personal income, undoubtedly helped to stimulate housing starts which rose gradually all through last year.

As noted in the December SURVEY, the continued trend toward multifamily building resulted from several factors such as: rising replacement demand; current and prospective increases in the number of young married adults; and the higher proportion of the growing number of young single adults and older widowed or divorced persons who are setting up households of their own. Geographically, the swing toward multifamily units has been widespread, encompassing all sections of the country. A significant proportion of this type of construction has been taking place in suburban areas, where single-family home construction has traditionally been dominant.

### Business fixed investment

Business fixed investment advanced \$2½ billion, or 5 percent, to reach a total of \$52½ billion in 1963.

As in recent years, emphasis in investment programs was on replacement and cost reduction. Notwithstanding some improvement in operating rates during the year, excess capacity persisted and was still a restraint on capital investment, which remains low relative to total production. After averaging well above 10 percent of total national output during the 1947-57 period, business fixed investment fell relatively sharply in 1958 and has since fluctuated at about 9 percent of GNP. (See chart on page 8.)

The 1963 increase in plant and equipment spending occurred against a background of rising profits and cash flow, and relative stability in most long-term interest rates. The new depreciation guidelines issued in mid-1962 and the investment incentive tax credit law approved later the same year were also stimulating factors. These measures were retroactive to 1962 operations but 1963 was the first year in which they were fully operative. Their effects were probably largest on railroads and textiles. In the textile industry, the new depreciation guidelines became effective earlier than in other industries.

The quarterly pattern of the 1963 advance featured somewhat reduced expenditures in the opening quarter, a pickup in the second and third, and a slower rate of advance in the final quarter.

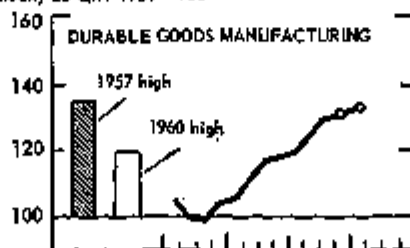
All major industry groups, except mining and nonrail transportation, contributed to the 1963 rise in plant and equipment expenditures. The strongest performances were by durable goods manufacturers, railroads, communications and commercial firms. (See chart.) Durable goods producers expanded outlays by one-tenth in 1963. This increase, following the rise of one-sixth in the preceding year, brought expenditures in this industry group back to the previous 1957 record.

Among the major industry groups, the railroads made the largest relative gain—one-fourth—in plant and equipment expenditures in 1963. Sparked by an upturn in earnings in 1961, the railroads initiated programs to regain traffic lost to other carriers by investing heavily in new and more efficient freight cars and other equipment.

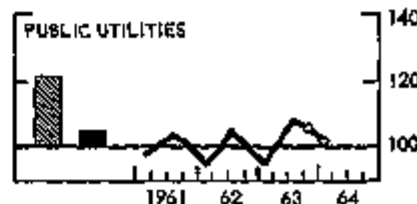
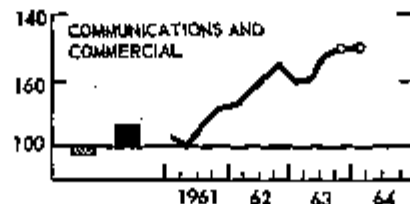
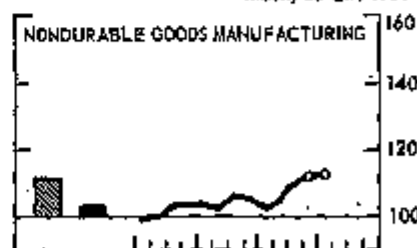
In contrast to heavy goods manufacturing and railroads, expenditures for new plant and equipment by communications and commercial firms have shown a substantial growth trend since 1957. This was continued last year with a 5-percent rise in dollar outlays.

### EXPENDITURES FOR NEW PLANT AND EQUIPMENT

Index, 2d Qtr. 1961 = 100



Index, 2d Qtr. 1961 = 100



○ Anticipated

Notes: Ratios based on seasonally adjusted quarterly totals.

U.S. Department of Commerce, Office of Business Economics

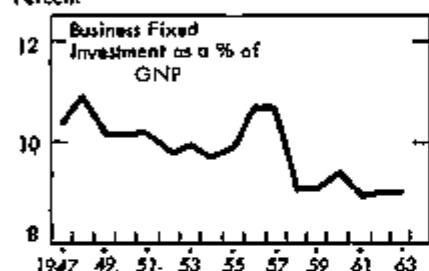
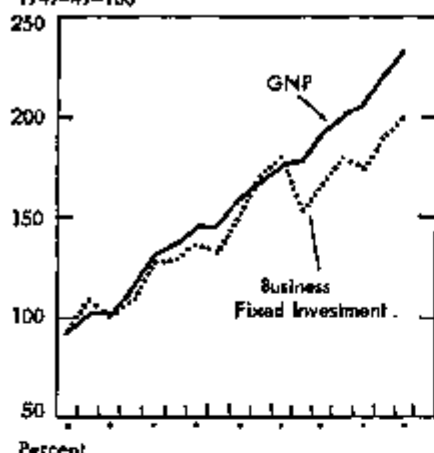
DATA: OBE & SEC

64-1-10



# GROSS NATIONAL PRODUCT HAS RISEN FASTER THAN BUSINESS FIXED INVESTMENT

1947-49=100



U.S. Department of Commerce, Office of Business Economics 64-1-11

Somewhat less prominent in the 1963 capital spending picture were nondurable goods manufacturers, public utilities, and nonrail transportation firms. Producers of nondurable goods increased plant and equipment expenditures 3 percent, with major contributions from the chemical and textile industries. For public utilities, expenditures have been on a plateau for several years, about one-fifth under previous records. The 3-percent increase in 1963 was due to the enlarged projects of the electric power sector of the industry.

Capital spending by the nonrail transportation industry peaked in 1962, as outlays by both air and trucking lines set new records. Expenditures declined 8 percent in 1963 mainly because of a substantial decline by the airlines.

## Government spending and receipts higher

Both the Federal Government and State and local governments continued to support the rise in private demand, each increasing their purchases of goods and services by about \$4 billion in 1963, to carry the total to \$125 billion.

However, reflecting primarily the rise in economic activity, receipts at both levels rose even more rapidly than total expenditures. On income and product account, the Federal deficit declined while State and local governments realized a larger surplus than the year before.

The advance in State and local purchases, which brought the total to nearly \$40 billion, centered in payrolls—reflecting both increased employment and higher average pay. In addition, there were increases in construction outlays, especially for highways and in a variety of miscellaneous purchases. Total State and local expenditures, which in addition to purchases of goods and services include transfer payments and net interest paid, rose \$4½ billion in 1963 to \$63 billion. Receipts increased to \$64 billion as overall economic activity was higher and a number of new tax measures became effective.

The State and local government surplus on income and product account was about \$1 billion in 1963, \$½ billion more than in 1962 and one of the largest surpluses since early in the postwar period. In recent years, the rate of gain in State and local expenditures has averaged only about 8 percent compared with 10½ percent in the earlier postwar years. At the same time, receipts have continued to increase at nearly the same pace as in earlier years.

## Federal outlays

Federal purchases of goods and services at \$66½ billion were up \$4 billion from 1962. Most of this gain occurred by the second quarter of 1963, and Federal purchasing changed little thereafter.

The year-to-year rise was concentrated in national defense. Over \$2 billion reflected higher procurement of goods, especially durables, and the military pay raise which became effective in the closing quarter contributed about \$½ billion. Hard goods procurement fell back somewhat in the latter period.

Defense Department expenditures for research and development were substantially higher than in the previous year, and outlays by the National

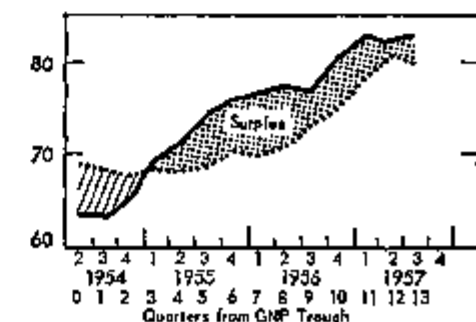
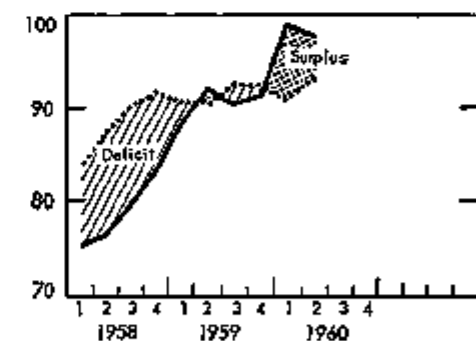
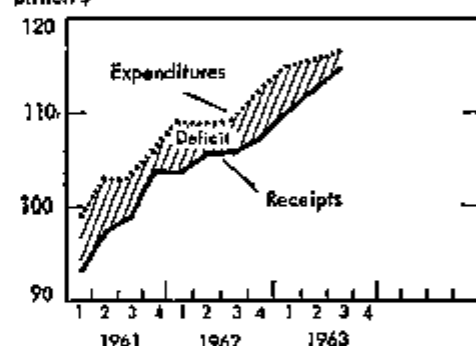
Aeronautic and Space Administration continued their rapid increase to nearly \$3½ billion in 1963, compared with \$1½ billion in 1962. Atomic Energy Commission expenditures, on the other hand, declined slightly.

Transfer payments rose almost \$2 billion last year; most of the gain occurred in the opening quarter. In total, expenditures on national income and product account approached \$116 billion \$6 billion above 1962.

Federal receipts, on the other hand, totaled more than \$113 billion for the year, \$8 billion above 1962. Most of the gain was the result of higher levels of economic activity. Both corporate and personal tax accruals were about \$2

## FEDERAL BUDGET IN THREE POSTWAR BUSINESS EXPANSIONS

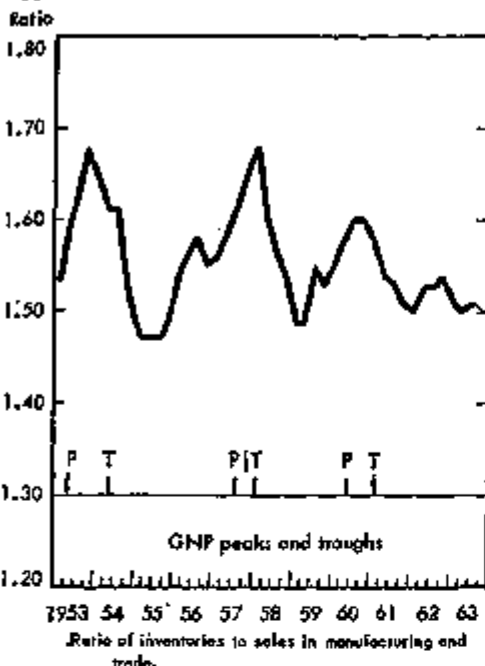
Billion \$



Notes: Based on receipts and expenditures in the national income accounts.  
U.S. Department of Commerce, Office of Business Economics 64-1-12



# STOCK-SALES RATIOS HAVE REMAINED LOW IN CURRENT BUSINESS EXPANSION



U.S. Department of Commerce, Office of Business Economics

64-1-13

billion greater, and social security taxes rose by \$3 billion, partly because of the rise in payrolls and partly because of the statutory increase in the tax rate effective the first of the year.

The Federal deficit on income and product account was \$2½ billion last year, \$1½ billion less than in 1962. Because of the leveling in expenditures and the continued increase in receipts during the year, the deficit tended to become progressively smaller, though according to preliminary data, the fourth quarter was little changed.

As the chart on page 8 shows, the Federal Government's fiscal position in the recent period has differed from previous expansions. Following the low points in 1954 and in 1958, budget balance was achieved about 1 year after the GNP trough. The continuing deficit this time reflects mainly a steeper rise in expenditures; the growth in receipts has been about average.

## Inventory accumulation little changed

Business increased its inventory holdings by nearly \$5 billion during 1963. As a similar increase had occurred during 1962, this GNP component did not contribute to the 1962-63 expansion in activity.

In overall terms, the quarterly pace of inventory accumulation fluctuated little during the year. The early buildup in steel inventories as a hedge against a possible strike had a stimulating effect on steel production. Later the cutback in ordering and subsequent liquidation of such stocks caused a sharp decline in steel output that lasted until the early part of the fourth quarter. Changes in the pace of stockbuilding by other business concerns, mainly in nondurables, were an important offset to this destabilizing movement.

In general, business inventory policy has been cautious throughout the current expansion, and, on an overall basis, excesses have been avoided. As the accompanying chart shows, the stock-sales ratio has shown little change over the past 6 quarters. Following the typical cyclical pattern, this ratio reached a low point about a year and a half after the economic trough of early 1961. Its subsequent stability, however, contrasts with the rising ratio of previous expansions.

## GNP by Type of Product

The changes in market demand, just described, have been reflected in changes in the four major types of product. The 7-percent advance in the volume of durable goods output was mainly the result of gains in personal buying, business fixed investment, and in Federal Government military purchases. The 2½-percent gain in non-durable goods output was, of course, concentrated in consumer soft goods purchases, which account for 90 percent of this category. The rise of 3½ percent in services reflected increases in both consumer services and government payrolls. The rise in residential building, State and local construction, and in business construction all contributed to the 2½-percent gain in the construction component of national output.

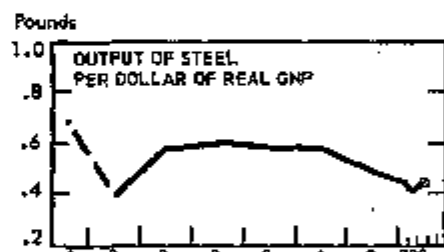
### Rise centers in durables

The strong upsurge in durable goods production has been an outstanding feature of the 1961-63 advance in total business activity. In real terms, the gain in durables output from the trough through the closing quarter of 1963

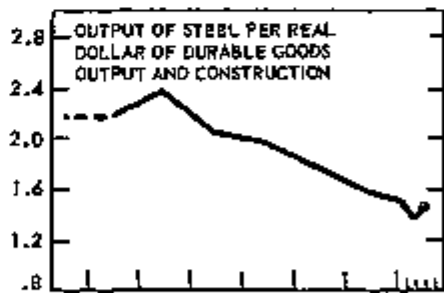
has been nearly 40 percent, and has accounted for about two-fifths of the GNP rise. Production of durable goods, from a postwar low of only 17 percent of total output in the trough quarter, recovered to 20 percent by the closing quarter of 1963. While this share compares favorably with the peak quarterly ratio reached in the economic advance of 1959-60, the share of durables production in total output is still below that of the early and mid-1950's.

Much of the recent strength in durable goods output is traceable to the auto industry. After having advanced by nearly one-fourth in 1962, real auto gross product rose by an additional 10 percent in 1963, to near record levels.

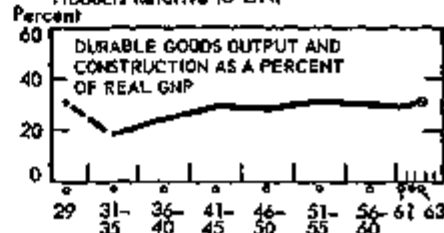
### STEEL OUTPUT AND GNP Steel Output Per Dollar of Real GNP Turned Moderately Upward In 1963



This Was a Result of:  
A Rise in Production of Steel Relative  
to Durable Goods Output and Construction



and Some Expansion in Production of These  
Products Relative to GNP



© Preliminary Data: AISI & OGE  
U.S. Department of Commerce, Office of Business Economics 64-1-14

Last year 7.7 million domestic and foreign autos were sold. Consumers purchased about 6½ million cars and the remainder was sold to business and government. Total unit sales exceeded the 1955 record by about one-fourth million. Sales of domestically produced cars, at 7.4 million last year, just about equaled the 1955 record. Sales of foreign cars, which were negligible in 1955, totaled nearly 400,-

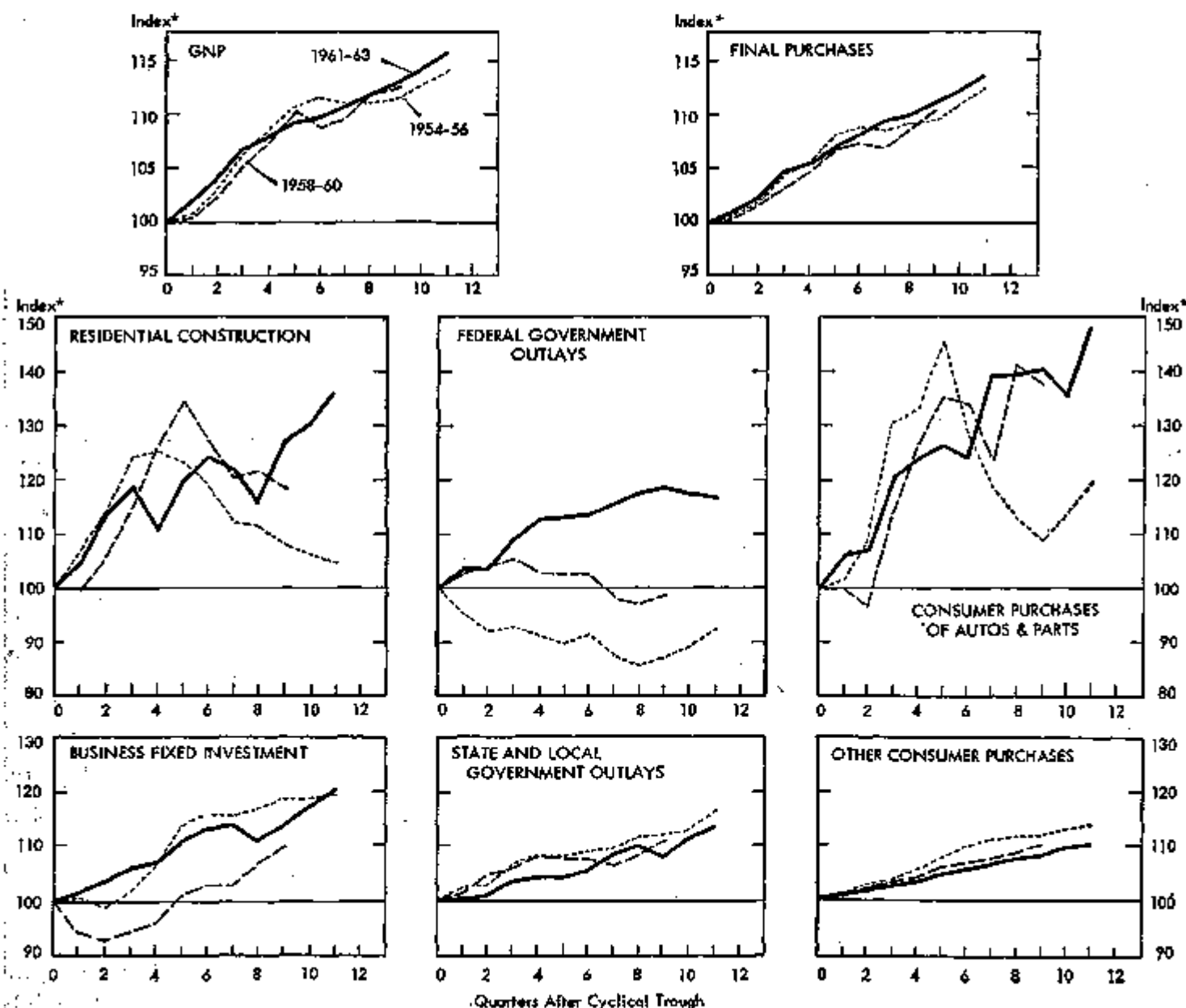
000 in 1963. While this was a gain over the preceding 2 years, car imports were still well below the peaks of 1959 and 1960. Domestic production approached the 1955 peak, with many more "compacts" in the 1963 production mix, the real value of auto GNP did not quite reach the 1955 high. Moreover, auto gross product, at 4 percent of total output, remained well below its peak of better than 5 per-

cent of GNP reached in 1950 and 1955.

### The Upturn in Perspective

As the charts below and on page 6 shows, the current rise in real GNP compares favorably with the two preceding expansions. Lasting almost 3 years, this rise has already exceeded that of 1958-60 (9 quarters), though it is

### REAL GROSS NATIONAL PRODUCT In Three Recent Cyclical Advances



\* Indexes based on constant 1954 dollars. Note: The cyclical troughs in GNP are 2d qtr. 1954, 1st qtr. 1958 and 1st qtr. 1961.

U.S. Department of Commerce, Office of Business Economics

64-1-15

still short of that of 1954-57 (13 quarters).

Measured from the previous trough, the 16-percent increase in real GNP that has occurred to date has already surpassed the gains registered in the entire upswings of 1954-57 and 1958-60. The 1958 expansion was 12½ percent. From the low quarter in 1954 through the 11th subsequent quarter, output went up less than 14 percent, and for the whole expansion the gain was 14½ percent.

When similar comparisons are made from the peak quarter preceding each recession, the record of the current gains is even more favorable. (See chart.) Real GNP is now 13½ percent above the second quarter of 1960. Measured from the preceding peak, activity went up only 7½ percent in the abortive 1958-60 advance and 10 percent in the earlier period.

The stronger gain this time reflects to some extent the moderate dimensions of the 1960-61 recession. The drop of

under 2 percent in real GNP from peak to trough quarter in that downturn compares with a decline of 4½ percent in 1957-58, and more than 3½ percent in 1953-54.

### Market pattern of cyclical advance

As the chart on page 10 shows, three major final markets have been primarily responsible for the relatively greater strength and duration of the current upswing. Since early 1961, the expansion in residential construction, auto purchases and Federal purchases of goods and services has been steadier—except for an occasional quarter—and of greater magnitude than in the two previous upturns. On the other hand, State and local purchases and consumer buying, except for autos, have contributed only about as much this time as in earlier periods. In the case of business fixed investment, it is only in recent quarters that the cumulative gain has come to equal that of 1954-57, though it has all along exceeded that of 1958-60.

## National Income

ALL major shares of national income—other than farm—were up in 1963. Corporate profits were substantially higher, both private and government wage and salary payments increased more moderately.

### Good corporate profits

Corporate profits registered the sharpest advance among the major shares of national income. The gain was the result of a further rise in corporate gross output and a continued stability in profit margins. The maintenance of corporate margins in a third year of a cyclical expansion was in sharp contrast to developments in the previous two periods of increasing business. Following the low points in both 1954 and 1958, margins went up rapidly for about a year and a half but contracted thereafter.

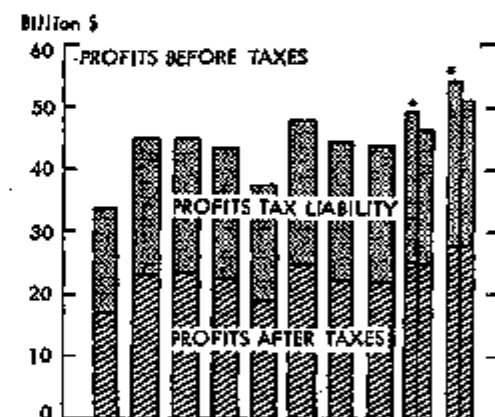
The recent strength of profit margins has reflected near-stability in unit

labor costs, as increasing labor productivity has approximately offset the rise in wage rates. In the previous business expansions unit labor costs rose sharply about a year and a half after the start of the upturn and profit margins contracted as a result. The recent behavior of both wage rates and labor productivity has been somewhat different from earlier experience. During the current upswing, for example, average hourly earnings have gone up by about three-fourths of a percent per quarter; in 1954-57 wage rates increased by more than 1 percent per quarter and in 1958-60 by nearly 1 percent. (See chart, page 12.) In addition, there seems to have been some acceleration in the growth of productivity this time as compared with 1954-57, although the pace of the productivity advance appears not to have changed much compared with 1958-60.

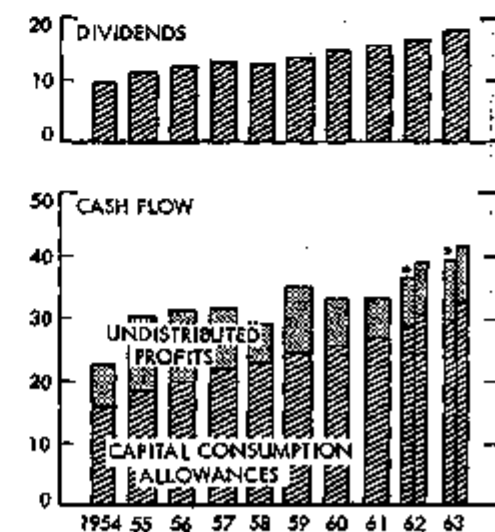
At about \$51 billion, profits before tax in 1963 were some \$4 billion above the 1962 total. The corporate profits total is a record for any year, despite the 1962 changes in the tax and depreciation rules, which had the effect of reducing reported profits by about \$2½ billion in both 1962 and 1963. On the old basis, 1963 profits were up \$6½ billion or nearly 14 percent from the previous cyclical peak in 1959. (See chart below.)

After-tax profits were also at a new peak of about \$27 billion. Higher earnings were reflected in both rising dividend payments and higher retained earnings. The latter, together with rising depreciation charges, increased corporate cash flow by some \$2½ billion and was sufficient to permit

CORPORATE PROFITS AT NEW PEAK IN 1963



Dividends and Corporate Cash Flow were at New Records



\* Adjusted to eliminate effects of the new guidelines and the investment tax credit.

U.S. Department of Commerce, Office of Business Economics 54-1-16

corporations to finance their investment needs with little change in outside financing as compared with 1962.

#### *Increase in employee earnings*

Private wage and salary payments totaled \$253 billion in 1963, a gain of nearly 5 percent or \$11½ billion. There were substantial increases in the last three quarters of the year, following a period of three quarters in which

wage and salary payments changed comparatively little.

Although the rise in employment from 1962 to 1963 was modest—less than 2 percent—total man-hours worked rose more than 2 percent, as the work-week lengthened slightly. This, in combination with an increase of 2½ percent in average hourly earnings, lifted the payroll total to a new high.

With a gain of \$4 billion over 1962, government payrolls approached \$60 billion last year. The advance centered in State and local payments, which rose steadily during the year. Federal payments rose slowly, and averaged less than \$1½ billion above 1962. Civilian payments went up very moderately during the year; most of the 1962-63 gain of \$1 billion was the result of a salary increase, effective at the start of the final quarter of 1962. Federal military wage and salary payments were little changed for the year as a whole, but rose at a seasonally adjusted annual rate of 1½ billion in the closing quarter of 1963 when the military pay bill became effective.

#### *Farm income lower*

Net farm proprietors' income, at \$13 billion in 1963, was about \$¼ billion below the preceding year, as an increase in physical output was more than offset by higher production costs; prices received by farmers were less than 1 percent below 1962.

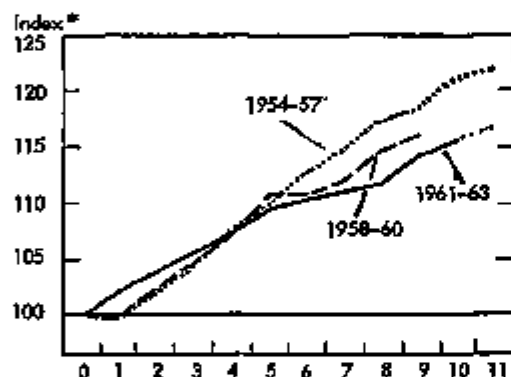
Farm output in 1963 rose 4 percent from 1962. Crop output was 4½ percent higher as the result of a larger acreage harvested and higher yields. Production of livestock and livestock products also rose in 1963 with meat animals showing a large gain. There were declines in the volume of milk, lamb and mutton, and wool produced.

As the increased volume of marketings more than offset the slight drop in the average of prices received, cash receipts from farm sales in 1963 are estimated at slightly above the \$36 billion total of 1962. Government payments to farmers totaled about \$1½ billion in 1963, little changed from the year before. Realized gross farm income at \$41 billion was also little different from 1962.

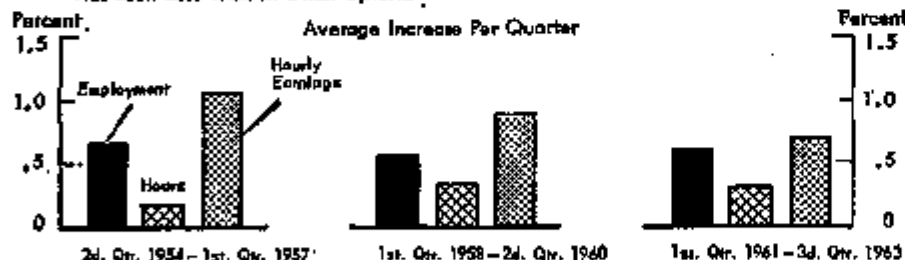
With the gross income flow to farmers stable, a small rise in farm production expenses accounted for the slight decline in net farm income noted above. The rise in production expenses was attributable mainly to higher prices for feed and fertilizer, and increases in interest and taxes per acre.

### PRIVATE WAGES AND SALARIES In Three Recent Cyclical Advances

Current Expansion at Somewhat Slower Pace.

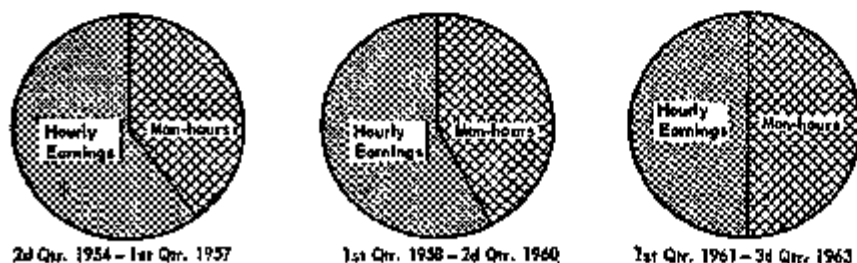


The Average Rate of Increase Since 1961 in Hourly Earnings Has Been Less Than in Other Upturns.



Hourly Earnings Increase Less Important in Current Upturn

Percent Distribution of Absolute Change in Payrolls



\* Note: The cyclical troughs in GNP are 2d. qtr. 1954, 1st. qtr. 1958, and 1st. qtr. 1961.  
U.S. Department of Commerce, Office of Business Economics

64-1-17

# Postwar Expansion of Output

**T**HE long-term rate of output expansion of the U.S. economy has been the subject of considerable discussion in recent years. The following section provides an up-to-date perspective on postwar rates of expansion, now that the economy has moved up to a new peak in the advance which started in early 1961. Comparisons are shown in terms of major markets, types of goods, and time periods. A provisional breakdown of factors associated with the output change—labor and labor productivity—is also provided.

## *Purchases by all sectors increased, 1947-63*

For the 1947-63 period as a whole, real GNP expanded at an average annual rate (compounded) of 3.5 percent to a total of \$493 billion (1954 prices) in 1963, compared with \$282 billion in 1947. Each of the major sectors of the economy participated in this upward movement. (See chart on page 14.) Government demand, including Federal and State and local, increased at a much faster than average pace, while expansion of the consumer market and purchases for private investment proceeded at below average rates.

Among consumers, purchases of non-durable goods increased 2.3 percent each year, in contrast to their expenditures on durable goods and services, where the yearly gains were about twice as great. The major types of private investment also had markedly different postwar rates of increase. The volume of residential construction increased at an average annual rate of 5 percent. Business investment in plant and equipment rose at the much slower rate of 1.8 percent.

## *Output increased sharply from 1947 to 1957*

For the purposes of this discussion the postwar years have been divided into two major periods, 1947 through

1957 and 1957 through 1963. While the period 1947-57 encompassed differential patterns of economic changes, it was generally one of strongly expanding output; with pressure on plant capacity and the labor force, prices rose considerably. Since 1957 the economy has been less buoyant and unemployment has been at a disturbingly high level, although it will be noted that a substantial lift in sales and production has occurred in the most recent years.

During the 1947-57 period, output, as measured by the real GNP, increased vigorously at an annual average rate of 3.8 percent. This rapid pace reflected several basic factors, including the satisfying of consumer, business, and foreign demands that had accumulated during the depression and wartime years.

Strong as the private markets were, government purchases gained even more rapidly. At the Federal level, the need to bolster the Nation's defenses provided a major source of demand. As a result, defense purchases in 1957 were well above those for 1947 despite the spending cutbacks which followed the end of the Korean war. Among State and local governments the provision of schools, roads, utilities, and other services for an expanding population supplied the dominant upward pressures.

These sources of demand were concentrated principally on the purchase of hard goods. As a consequence, output of durable goods and construction grew more rapidly from 1947 to 1957 than did the output of services and nondurable goods.

## *Less rapid gains, 1957-63, but recent pickup noted*

During the next span of years, 1957 through 1963, the average annual growth in output was at a slower pace, falling to 3.2 percent from the 1947-57 rate of 3.8 percent. Although con-

sumer purchases continued to expand at their earlier rate, declines appeared in each of the other major sectors of the economy.

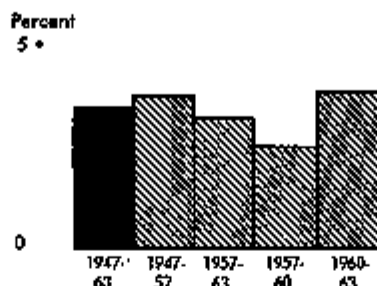
While output gains for the entire 1957-63 period have seemed relatively sluggish, demand has been much stronger in the latter half of this period than in the first half. For the period 1957-60 real output increased at an annual rate of 2.5 percent, sharply down from the 1947-57 rate of 3.8 percent. This downtrend affected each principal market. The most severe cutbacks appeared in Federal Government purchases and in private investment. Federal demand actually declined during these years, reflecting the downtrend in defense purchases which had set in after the end of the Korean hostilities. The rate of increase in private investment was reduced as gains in residential construction were not enough to offset declines in the demands of business for investment in plant and equipment.

Consumer purchases in total showed little change in their rate of expansion from 1957 to 1960, but this stability was the result of offsetting changes among the components. Purchases of consumer durable goods increased much less rapidly than during the preceding decade. However, this slowdown was to a large extent cushioned by a pickup in the rate of growth of consumer purchases of services and by stability in the rate of gain in the purchases of nondurable goods.

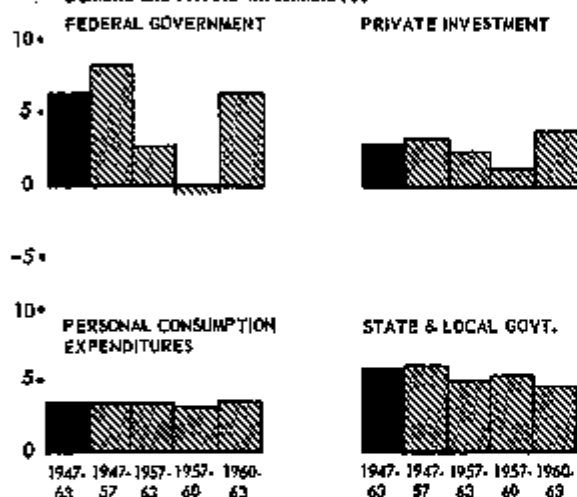
Reflecting the curtailment in purchases for defense and investment purposes, and in personal expenditures as well, durable goods output declined from 1957 to 1960. Construction continued to increase, but much more slowly than previously, while nondurable goods and services maintained the pace of expansion set during 1947-57.

# POSTWAR OUTPUT — AVERAGE ANNUAL RATES OF INCREASE

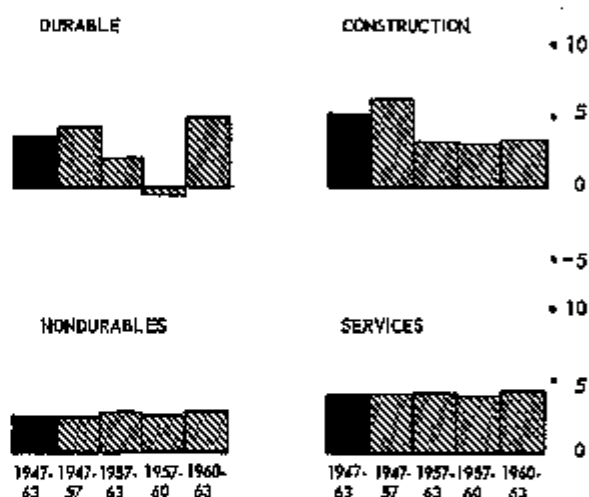
Rapid increases in First 10 Years, Followed by a  
Slowdown and Then a Recovery in the Rate of Expansion  
As Seen in Real GNP...



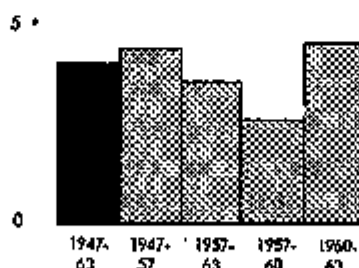
Where This Pattern is Most Pronounced in Federal Government  
Demand and Private Investment...



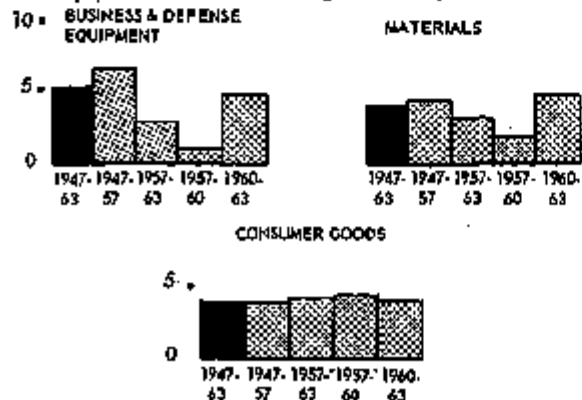
and Consequently in Durable Goods Output



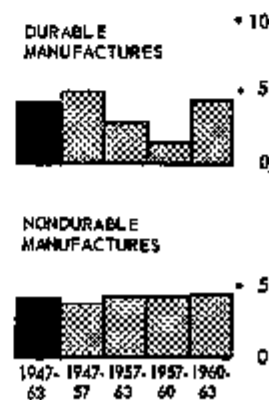
A Similar Pattern is Evident in the  
Federal Reserve Index of Industrial Production...



Where Rates for Business and Defense  
Equipment and Materials Changed Markedly



With Corresponding Changes  
in Durable Goods Manufactures



Data: FRB & OBE

For the most recent period, 1960 to 1963, the annual rate of increase in real GNP returned to the high rate of 1947-57. While these current gains are noteworthy, the span of years covered is so short that it is too early to separate the cyclical from the long-term implications. It should also be noted that in spite of this recent improvement, unemployment and excess industrial capacity continue relatively high.

Federal purchases for defense and other purposes rose over this period, although the annual rate of increase in Federal demand remained below that for 1947-57. In addition, business investment activity was considerably accelerated, so that the rate of increase in private investment for 1960-63 exceeded the 1947-57 rate. Further strength was added to the growth of total GNP by a sharp recovery in the rate at which consumers increased their purchases of durable products.

Reflecting the vigorous expansion in these markets, durable goods output continued as the most volatile element of final product. The rate of expansion in the volume of output of such goods reached 4.9 percent between 1960 and 1963, compared with the one-half percent decline for 1957-60. In contrast, the other forms of final product showed only small advances over the earlier rates.

#### *Federal Reserve indexes show similar pattern*

The broad postwar pattern of output expansion—rapid increase, slowdown, and the recent return to the earlier high rate—is reflected also in the Federal Reserve indexes of production.

While it is not intended to discuss these indexes in detail, it is interesting to note the lower half of the chart on page 14, which indicates that the rapid pace of increase in the early period, as seen in the Federal Reserve indexes, was associated with very sharp gains in the production of business and defense equipment and of materials. The 1957-60 slowdown and the recovery during 1960-63 are apparent in the corresponding fluctuations in output in these two Federal Reserve Market classifications. Changes in the rate at

which consumer goods production increased were much more moderate over the whole period.

#### *Output per man-hour rises*

The pickup in the rate of output advance in the last few years has been accompanied by a resurgence in the rate of increase in output per man-hour. Output per man-hour is often used as a measure of productivity change. A broader measure, embracing capital as well as labor inputs, would be preferable for this purpose, but is extremely difficult to construct and is not available on a current basis. Year-to-year changes in output per man-hour, particularly those of the most recent period, are probably less precise than those for output, mainly because of the difficulty in calculating a comparable series on man-hours worked,<sup>1</sup> but over longer periods this ratio is useful in assessing trends in labor requirements.

Table 1 on page 15 shows the average annual increases in output, output per man-hour, and man-hours in the private nonfarm economy for selected postwar periods. As may be seen from this table, output per man-hour has risen about 2½ percent per year on the average in the postwar period. The increase has not been uniform, however, and considerable year-to-year variation has occurred, as may be seen from the top panel of the chart on page 16.

1. The man-hours series that has been utilized in the calculation of output per man-hour has made use of establishment survey wage and salary worker data on hours paid for and household survey data for hours worked by self-employed persons and unpaid family workers. The wage and salary worker hours paid for have been adjusted to hours worked on the basis of data collected in the household surveys.

When the postwar period is broken into two time spans, 1947-57, and 1957-63, as in the preceding section dealing with output changes, it may be seen that the rate of advance of output per man-hour in each of these periods has been of approximately the same magnitude for the private nonfarm economy, as well as for manufacturing and all other private nonfarm industries.

Within the more recent period, however, significant differences in the rate of advance have occurred. From 1957 to 1960, coincident with a slowing in the output advance, the growth in output per man-hour was reduced. Since then the rise in output per man-hour appears to have accelerated and, like the increase in output for the period 1960-63, has been slightly in excess of the average annual postwar rise.

#### *Manufacturing gain larger than total*

Output per man-hour in manufacturing has advanced at about 2½ percent per annum in the postwar period, compared with the approximate 2.5 percent yearly increase for the nonfarm private sector of the economy. From 1957 to 1960, when output per man-hour in the private nonfarm sector of the economy rose at a slower rate, the slowdown was very largely attributable to the retardation in manufacturing where the advance fell off to about 2 percent per annum. In a similar fashion the acceleration in the rise of output per man-hour in the most recent period mirrors largely the spurt that has taken place in manufacturing. From 1960 to 1963 output per man-hour in manufacturing appears to have risen at about 3½ percent per year. It may

Table 1.—Average Annual Rates of Change in Output, Output per Man-Hour, and Man-Hours, 1947-63

	Private nonfarm industries			Manufacturing			Private nonfarm industries except manufacturing		
	Output	Output per man-hour	Man-hours	Output	Output per man-hour	Man-hours	Output	Output per man-hour	Man-hours
1947-52.....	3.7	2.5	1.1	3.2	2.8	0.5	3.8	2.5	1.4
1947-57.....	3.9	2.5	1.2	2.6	2.7	.8	4.0	2.6	1.3
1957-63.....	3.3	2.5	.8	2.9	2.9	0	3.8	2.4	1.2
1960-63.....	2.6	2.3	.3	1.2	2.3	-1.1	3.2	2.3	1.0
1960-63.....	4.1	2.7	1.3	4.6	3.5	1.1	3.8	2.4	1.4

<sup>1</sup> Includes government employees.

Source: U.S. Department of Commerce, Office of Business Economics.



be premature, however, to generalize about trends on the basis of a time period as brief as 3 years. In three other periods of 3-years' duration in the postwar era—1947-50, 1952-55, and 1956-59—output per man-hour in manufacturing increased at about as fast a rate.

#### *Growth in nonmanufacturing steady*

In contrast to the sharper movements in manufacturing, the average annual rate of increase in output per man-hour in the other nonfarm private industries has been more uniform in the postwar period. (See chart below.) The

rise has been about 2½ percent per annum over the entire postwar period, and close to that rate in each of the subperiods shown in table 1. Some slight retardation in the rate of increase appears also to have occurred from 1957 to 1960, but this was modest as compared with the slowdown in manufacturing in that period; moreover, no acceleration in the rate has taken place in subsequent years.

#### *Effects of composition changes small*

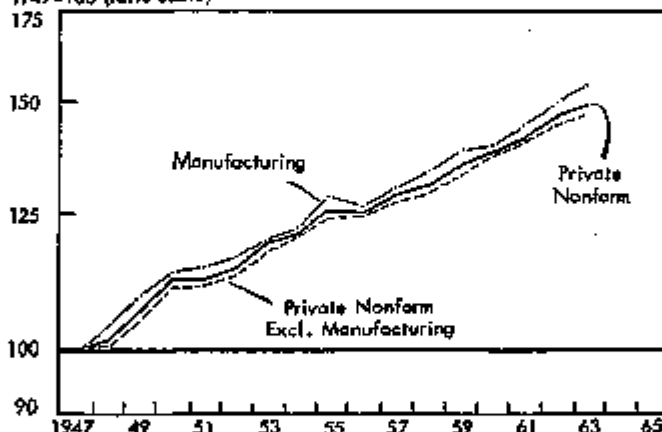
Output per man-hour is somewhat larger in manufacturing than in other nonfarm private industries. For this

reason changes in the industrial composition of output between manufacturing and nonmanufacturing industries were examined to see what effect these might have had on the overall rate of change in output per man-hour. Such shifts in output appear to have had but a minor effect on the overall growth rate of output per man-hour over the postwar years. In the periods 1947-57, and 1957-60, a decline of the share of manufacturing in total output appears to have resulted in less than one-tenth of a percentage point decline in the annual rate of increase of overall output per man-hour.

POSTWAR INCREASE IN OUTPUT PER MAN-HOUR

- Overall Rate of Increase Has Averaged About 2 1/4 Percent Per Year
- Manufacturing Shows Above-Average Rise

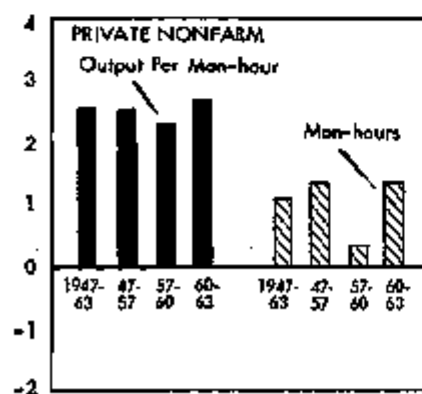
1947=100 (ratio scale)



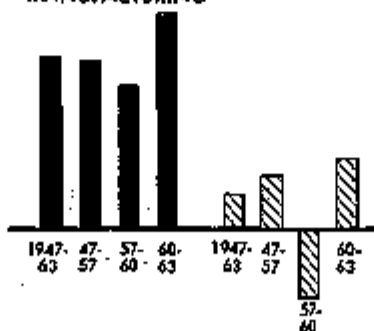
OUTPUT PER MAN-HOUR INCREASE

- More Important Than Man-Hours Rise in Production Advance
- Recent Acceleration Due to Manufacturing

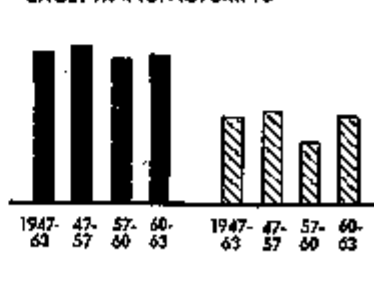
Percent



MANUFACTURING



PRIVATE NONFARM EXCL. MANUFACTURING



Average Annual Percentage Change

# Employment—Prices—Finance

THE expansion in output in 1962 brought about a moderate advance in employment. There was not much change, however, in either the level or the rate of unemployment because the labor force, which had increased relatively little in 1962, showed a larger gain last year. Total civilian employment averaged 68.8 million for the year. This was a rise of approximately 1 million from 1962, about as large an increase as in the preceding year. The average number of jobless was a little above 4 million, and constituted 5.7 percent of the civilian labor force.

Employment in most major industry divisions rose last year but agricultural employment averaged about 250,000 lower than the year before.

Most of the advance in nonagricultural employment occurred in the earlier part of the year, when marked gains in manufacturing and construc-

tion added to the relatively steady rise in trade, finance, service industries, and State and local government employment. After midyear, seasonally adjusted employment in manufacturing and construction leveled off, although a little improvement was evident in December; increases continued in other nonagricultural sectors of the economy.

In manufacturing, there was some further extension in the workweek. This was most noticeable in the durable goods industries, where the average number of hours worked has shown a small advance over the past 3 years. The workweek in the durable goods industries averaged over 41 hours, the highest since 1955. In nondurable industries, the average hours worked per week, at 39.6 hours, was up only slightly from 1962. In construction, working hours were extended with a more than seasonal advance in the spring and early

summer, as the industry attained a new building record for the year.

## Longer term trends

Last year's rise of 900,000 workers in "service" industries—finance, trade, service, and government (chiefly State and local)—was an extension of a long-

Table 1.—Employment in Major Occupational Groups

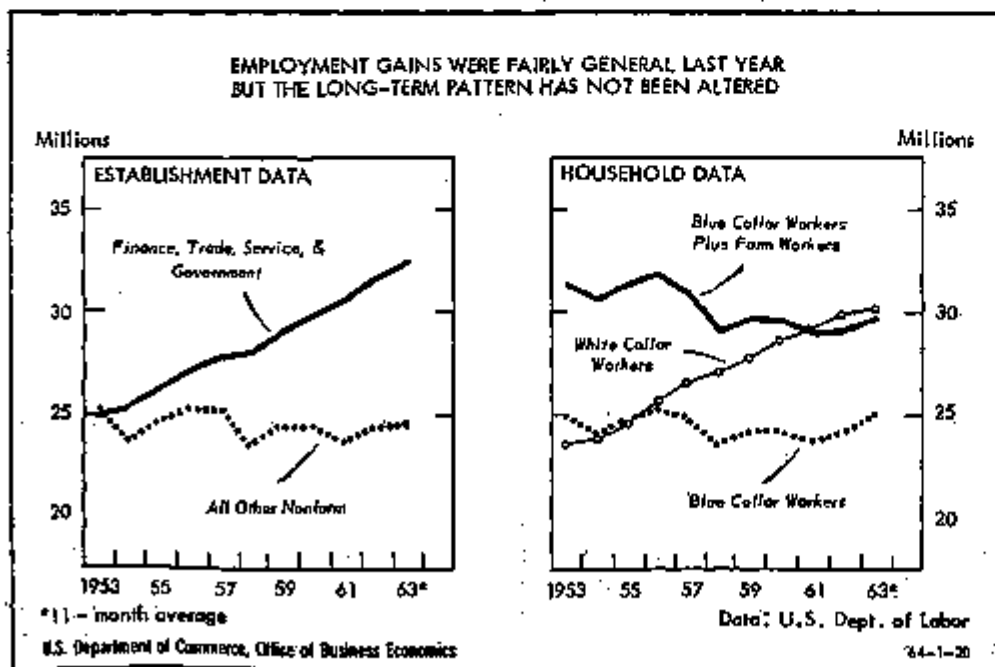
	[Millions]				Change from 1952-53
	1953	1957	1962	1963 <sup>1</sup>	
White collar workers.....	23.6	26.5	29.9	30.1	6.5
Blue collar workers.....	25.0	24.9	24.2	23.0	0
Farm workers.....	0.2	0.1	0.9	0.7	-1.5
Service workers.....	6.0	7.6	8.8	9.0	2.1

<sup>1</sup> Based on 11-month averages.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

term trend. As indicated in the left panel of the accompanying chart, the advance in these sectors has been relatively steady over a long period of years. Each of the major groups has contributed to the long-run rise, and the increase for the combined group has amounted to 7½ million during the past decade.

Employment in all nonagricultural industries other than "service" industries during the past decade has shown year-to-year fluctuations, primarily cyclical in character, but no general trend has been apparent. The recession low points in 1954, 1958, and 1961 are all clearly evident in the chart; although a considerable expansion occurred in 1962 and 1963, employment in this group of industries is somewhat lower than it was 10 years ago. Prior to 1953 employment in this broad group, which is dominated by manufacturing, had shown a general uptrend.



An important development during the past 10 years, related to the industrial shift in employment, has been the change in occupational distribution. As shown in the right panel of the chart, the advance has been chiefly among white collar workers, whose numbers now total 30 million, and exceed the combined total number of blue collar and farm workers. Employment among blue collar workers has shown only cyclical movements during this period; farm employment has shown a steady decline.

Another major category of workers—service employees—has increased about 2 million since 1953 and now totals about 9 million. This classification embraces about 2 million private house-

hold employees whose numbers have increased in the past decade after changing little in the early postwar period. A larger group of about 6½ million—which includes policemen, firemen, waiters, nurses, and personal-service employees—has also shown a general advance. (See table 1.)

### Composition of unemployment

Unemployment in 1963 was about the same in most respects as in 1962. Unemployment rates among the various classifications—by occupation, sex, color, and duration of unemployment—all changed remarkably little. The principal exception was a significant rise among the young and inexperienced and a slight decline among adult, married men. (See table 2.) Those with no previous experience in the labor force constituted 15 percent of the unemployed last year, up from 13.4 percent in 1962 and 11.6 percent in 1959. Similarly, those under 20 years of age have experienced rising rates of unemployment. These changes have occurred at a time when the number of youth reaching the usual age of entry into the labor force is beginning the large expansion which is expected to develop in the immediate years ahead.

In the past few years the substantial shift in employment from blue- to white-collar jobs has not been accom-

panied by a rise in blue collar and a decline in white collar unemployment rates, as might be expected if unemployment were mainly due to a lack of adaptability of the supply of labor to changes in the demand for various types of labor. The little shift that has taken place in unemployment rates has been in the opposite direction—a slight rise in white collar and a slight decline in blue collar jobless rates.

The rising number of youths seeking entry into the labor force and the shift in job opportunities from those occupations which are less demanding of skill and education—chiefly blue collar—to the more demanding types of technical and professional work is nevertheless increasing the need for appropriate training and education. Vocational retraining needs of older workers are also growing. New Federal legislation in 1963 provided for additional vocational training and education and for a broadening in the scope of such training to better bridge the gap between the present education and skills available among the unemployed and those required for developing job opportunities. The new program for worker training is still small in relation to jobless workers' needs, but the extension of training to a larger group of young workers, including those deficient in basic education, is an important step for a growing group of unemployed youth.

## Price Developments in 1963

1963 was another year of comparatively little price change. The 1.6-percent rise in the average of final product prices—the GNP deflator—was only fractionally greater than in the 2 preceding years. It reflected advances in consumer items, investment goods, notably construction, and government goods and services. Prices in wholesale markets were slightly lower than the year before, on the average; it is now some 6 years that these prices have been on a plateau. Wholesale

prices of farm products fell by almost 2 percent; despite some firming toward the end of the year, industrial wholesale prices were unchanged as compared with 1962. Consumer prices advanced by about 1 percent over 1962.

The same forces that have dampened price increases in recent years were present in 1963. Overall, the Nation's ability to produce continues to be in excess of current demands, in spite of the considerable increases in output in the present cyclical upturn. This gen-

Table 2.—Selected Aspects of Unemployment

	1958	1959	1960	1961	1962	1963
<b>Unemployment rates (percent):</b>						
Male.....	2.5	5.3	5.4	6.5	5.3	5.3
14 to 19 years of age.....	9.5	13.8	14.0	15.4	13.3	15.6
20 and over.....	3.4	4.8	4.9	5.8	4.6	4.4
White.....	3.1	4.6	4.8	5.7	4.6	4.7
Nonwhite.....	7.2	11.3	10.7	12.9	11.0	10.7
Married, with spouse.....	2.3	3.6	3.7	4.0	3.9	3.4
Single.....	7.7	11.6	11.7	13.1	11.2	12.4
Female.....	4.3	5.9	5.9	7.2	6.2	5.6
14 to 19 years of age.....	9.9	12.3	12.9	14.9	13.2	15.7
20 and over.....	4.3	5.2	5.1	6.3	5.4	4.4
White.....	2.8	4.3	4.5	5.5	5.5	5.9
Nonwhite.....	8.0	11.1	10.5	11.9	11.1	11.5
Married, with spouse.....	3.0	5.2	5.2	6.5	5.4	4.6
Single.....	6.3	7.1	7.5	8.5	7.9	8.0
<b>By Occupation:</b>						
Total.....	3.8	5.8	5.8	6.7	5.9	5.7
White collar workers.....	1.7	2.8	2.4	3.2	2.8	2.9
Professional and technical.....	1.0	1.7	1.7	2.0	1.7	1.9
Managers, officials, and proprietors.....	.6	1.3	1.4	1.6	1.5	1.6
Clerical workers.....	2.2	3.7	3.5	4.6	3.9	4.1
Sales workers.....	2.7	3.7	3.7	4.7	4.1	4.3
Blue collar workers.....	6.1	7.6	7.8	8.4	7.4	7.2
Craftsmen and foremen.....	3.2	6.3	5.3	6.3	5.1	4.8
Operatives.....	5.4	7.6	8.0	9.0	7.5	7.6
Nonfarm laborers.....	3.2	12.4	12.5	14.6	12.4	12.3
Service workers.....	4.6	6.0	5.7	7.0	6.0	6.1
Private household workers.....	4.2	4.8	4.9	5.9	4.9	5.2
Other service workers.....	4.8	6.4	6.0	7.4	6.4	6.3
Farm workers.....	1.9	2.5	2.7	3.0	2.2	3.0
Partners and farm managers.....	.4	.3	.3	.4	.3	.5
Farm laborers and foremen.....	3.7	6.1	5.2	5.7	4.3	5.9
<b>Percent distribution of unemployed by duration of unemployment:</b>						
Less than 5 weeks.....	52.4	43.3	45.7	39.5	43.8	44.4
5-14.....	28.6	28.2	28.9	28.5	28.3	28.8
15-26.....	10.7	12.3	12.8	15.1	12.3	12.8
27 weeks and over.....	5.2	15.0	11.5	16.7	14.6	12.6

Note.—1963 based on 11-month averages.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

eral condition shows up in the unemployment rate, and in an excess of industrial capacity. Farm surpluses persist in numerous agricultural markets, and foreign competition continues to act as a restraint on many domestic prices.

On the cost side pressures have not been strong. Although wage rates rose through 1963, rising productivity was sufficient to keep overall unit labor costs comparatively stable for the third year in a row.

#### Wholesale industrial prices

With another year of overall stability in wholesale markets, industrial prices in 1963 were less than 1 percent above the 1957-59 average. Once again there were small offsetting movements among the various industrial groups. Among nondurable goods the downward drift in prices of industrial chemicals and refined petroleum products, where overcapacity has been common since 1960, continued. Textile prices were very close to last year's averages but quota-

tions for tobacco and alcoholic beverages were higher.

Among durable goods, a good year for homebuilding brought lumber prices about 2 percent above the average for the previous year. Prices of metals and machinery averaged close to those of 1962.

The stability in metal prices marked the end of a slight downturn of a 2 years' duration in primary metals. In the spring and again in the fall of last year, steel producers made selective price increases that raised the average level of iron and steel prices (BLS) by 1½ percent and brought steel prices to within 2½ percent of their peak in the fall of 1959. Nonferrous metals prices also moved slightly upward but late in the year were still some 5-6 percent below their levels in early 1960.

Rising demand for equipment brought somewhat higher price tags for most broad categories of machinery but electrical equipment and motor vehicles averaged slightly lower than in 1962.

#### Consumer prices slightly higher again

The BLS Consumer Price Index rose 1.2 percent over 1962, virtually the same increase that took place in the 2 preceding years. Food, nonfood commodities, and services were all higher. A tapering in the overall rate of increase was evident after July.

Food prices were up by about 1½ percent—a somewhat larger rise than in the 3 preceding years. Much of this was attributable to a 6-percent advance in the price of fruits and vegetables, supplies of which had been limited by the freeze in the South a year ago. On the other hand, plentiful supplies of meat, poultry, and dairy products brought lower prices for these items.

Although 1963 was a year of strong demand for consumer durable goods, prices of both automobiles and appliances averaged somewhat lower than the year before. Appliances are one of the few categories of goods lower in price than they were in the 1957-59 period. There was a very pronounced slowing down in the rise of used-car prices, which had increased some 13 percent in the 2 preceding years. The new 1964 automobiles came out at list prices essentially the same as the year before.

Once again prices of services were up more than those of commodities. Last year the increases were a little smaller than in previous years—a development that suggests a somewhat better balance between supply and demand than had been the case earlier. This was particularly evident in the case of rents, which rose only 1 percent, the smallest increase in the postwar period. Prices of medical care again showed the largest increase in services other than rent; this rise brought prices in this service category some 20 percent above the 1957-59 average. Public transportation rates rose less this year than in 1961 and 1962 because the elimination of the Federal excise tax

Table 3.—Percent Changes in Consumer Prices

	1960-61	1961-62	1962-63*
All items.....	1.1	1.2	1.2
Food.....	1.2	1.0	1.6
Dairy products.....	1.0	-.7	-.4
Fruits and vegetables.....	4	5	5.8
Meats, poultry, and fish.....	3	2.4	-1.4
Housing.....	.8	.9	1.0
Rept.....	1.3	1.2	.8
Gas and electricity.....	.8	.9	.9
House furnishings.....	-.6	-.5	-.5
Apparel.....	.7	.4	.6
Transportation.....	1.2	2.1	.5
Private.....	.8	1.8	.4
Public.....	4.4	3.3	1.1
Medical care.....	3.0	2.6	2.1
Personal care.....	.5	1.5	1.2
Reading and recreation.....	2.3	2.2	1.6
Other goods and services.....	.8	.7	1.4
Special groups.....			
All items less food.....	1.1	1.2	1.1
All items less shelter.....	1.2	1.2	1.1
Commodities.....	.7	.8	2.6
Nondurables.....	.9	.8	1.3
Nondurables less food.....	.6	.6	.4
Nondurables less food and apparel.....	.5	.4	1.4
Durables.....	-.3	1.0	-.2
New cars.....	.0	-.4	-.2
Used cars.....	3.8	2.1	1.4
Durables less cars.....	-1.2	-.1	-.2
Commodities less food.....	.3	.7	.6
Services.....	1.9	1.8	1.6
Services less rent.....	2.1	1.8	1.8
Household operations, services, gas, and electricity.....	1.2	1.2	1.8
Transportation services.....	2.5	1.6	1.0
Medical care services.....	3.7	2.9	2.6
Other services.....	1.7	1.8	1.9

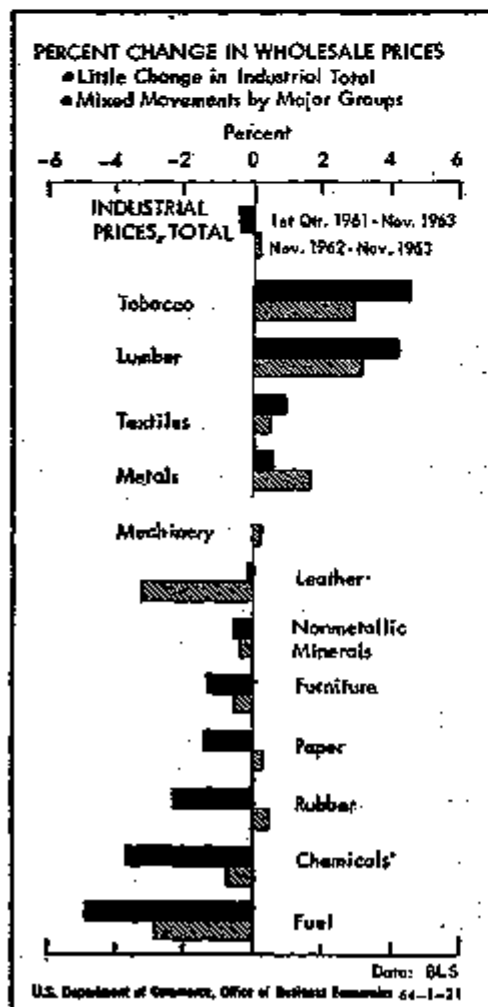
\*Based on 11 months of 1963.

Source: Basic data from U.S. Department of Labor, Bureau of Labor Statistics.

on railroad fares, effective in late 1962, offset in part the continued rise in transit fares.

#### Farm prices lower

Prices received by farmers averaged lower in 1963 than in 1962. On the whole, agricultural prices showed rather narrow fluctuations, easing a bit at the beginning and at the end of the year. Livestock prices were lower in



1963, as marketings of both cattle and hogs reached high rates in the early months of the year. Marketings of grain-fed cattle stayed high all year, and the number on feed at the yearend was only slightly smaller than the large number in feedlots a year earlier. Although hog slaughter was high during the year a cutback in pig production was in the offing at yearend, and was expected

to bring about a strengthening in pork prices in 1964.

Crop prices were generally firm in 1963 despite another record harvest, as Government supports for major crops prevented a downward adjustment in prices. Wheat prices strengthened about midyear because unusually poor crops abroad led to an increase in export demand; lower support levels for wheat are scheduled for the 1964 crop.

reserve requirements than demand deposits.

#### *Other financial institutions*

Savings institutions other than banks reported higher lending in 1963 than in 1962. Savings and loan associations' assets rose \$13 billion, \$2 billion more than in 1962; mutual savings banks added \$3½ billion to their portfolios—\$½ billion above the 1962 pace; and life insurance companies' assets rose \$6½ billion, about \$½ billion more than in 1962.

The enlarged flow of investment funds to these institutions, which, together with commercial banks, play leading roles in the mortgage market, was reflected in the ready availability of mortgage credit throughout the year.

#### *Financing costs*

Most short-term interest rates moved up about two-thirds of a percentage point within the year, and for the year as a whole, averaged about one-third of a percentage point more than in 1962. While long-term rates also tended to move up within the year, the rise was much smaller, and for the year as a whole, most long-term rates averaged about the same as in 1962 or slightly lower.

The rise in short-term yields was encouraged by the measures taken by the monetary authorities. The relative stability of long-term yields last year was associated with heavy inflows of savings deposits to financial intermediaries.

Stock prices moved irregularly upward through the year. By the end of 1963, most stock price indexes were about one-sixth above the year-earlier level.

#### *Corporate financing*

Corporate investment in new plant and equipment rose about \$1½ billion last year, to a total of \$33½ billion. Apartment house construction also moved up. Additions to inventory, at \$4 billion, were substantially unchanged from the 1962 pace. Other working capital requirements—particularly lending to customers—moved up moderately.

## Financial Markets in 1963

CREDIT was generally abundant in 1963 as it had been in 1961 and 1962. There were no major changes in the capital markets. Further moderate increases in business capital outlays were more than matched by the increased flow of funds from internal corporate sources, and there was little change in aggregate corporate borrowing. The net increase in both consumer credit and mortgages was apparently somewhat greater than in 1962. On the other hand, government demands on the capital markets were slightly lower than in 1962, mainly because of a modest reduction in the Federal deficit.

Faced with the continued strain on our balance of payments, the monetary authorities moved toward somewhat less easy credit conditions after mid-year. The change was signaled by an increase from 3 to 3½ percent in the discount rate in July. The reserve position was tightened and this led to increased borrowing from the Reserve banks. Free reserves averaged about \$206 million last year as compared with \$424 million in 1962. Short-term interest rates moved up sharply in the late summer and early fall, but stabilized in November and December at the highest levels since early 1960. Longer term rates were relatively stable.

The course of stock prices was upward most of the year and by late summer had passed the highs of late 1961 or early 1962.

#### *Bank credit expansion*

The \$18½ billion rise in commercial bank credit last year was virtually as large as it was in 1962, the highest peacetime year. A slowdown in credit expansion took place in the third quarter, immediately after the increase in the rediscount rate, but, in the fourth quarter, credit expansion resumed at a pace above the 1962 average.

Commercial banks stepped up their lending to private borrowers by \$2½ billion to an annual total of \$16 billion. This expansion was facilitated by a \$3½ billion selloff of Treasury securities. Purchases of State and local securities were at a record \$5½ billion pace, \$½ billion above 1962.

Time deposits rose by \$14 billion, while demand deposits were up \$3½ billion, continuing a shift which has been going on for many years. The relative gain in 1963 was somewhat less than that for 1962 when time deposits rose \$15 billion as against a \$1 billion rise in demand deposits. The shift to time deposits served to cushion the banks against the tighter reserve position; as time deposits carry lower

The continued good performance of profits together with higher depreciation allowances on an expanded capital base were reflected in a \$2½ billion rise in internal funds.

External long-term financing totaled about the same—\$10½ billion—in both 1963 and 1962. Within this aggregate, there was a sharp drop in net stock flotations, a marked rise in mortgage and long-term bank borrowing, and a modest increase in bond flotations. Net stock issues—including mutual funds—totaled about \$700 million last year as compared with over \$2 billion in 1962 and \$4½ billion in 1961. To a large extent the weakness in stock issues reflects the lack of investor interest in new equities since the stock market shakeout in the spring of 1962, as well as the failure of mutual fund sales to expand over the past 2 years.

The marked rise in corporate mortgage borrowing reflected principally the financing of expanded apartment houses, office, and commercial building.

Net bond issues, at \$5½ billion were ½ billion above the 1962 pace. The gross volume of bonds floated aggregated \$10½ billion, as corporations stepped up their refinancing operations—particularly in the early part of the year. Bank borrowing totaled \$3 billion in 1963—about the same as in 1962. In both years, finance companies accounted for about two-fifths of this total.

Corporations added \$1½ billion to their aggregate liquid asset holdings during 1963. In 1962, corporations had increased their liquid asset holdings by about \$1 billion.

#### *Consumer finance*

Purchases of houses and consumer durables were both higher in 1963 than in 1962, as were the associated borrowings. Personal saving was also higher, as individuals stepped up their debt repayments.

Nonfarm residential mortgage recordings reached an alltime high in 1963, and mortgage debt on 1-4 family properties rose \$14 billion. In large part, this reflected the continued availability of mortgage credit on relatively attractive terms from commercial banks, as well as the expanded lending capacity of savings and loan associations, mutual savings banks, and life insurance carriers.

New extensions of installment loans totaled \$60½ billion—\$5½ billion more than in 1962. Lending secured by consumer durable goods rose \$3½ billion, while extensions of unsecured personal loans increased \$2 billion above the 1962 pace. With debt repayments up about \$4½ billion, net installment lending totaled \$5½ billion—\$1½ billion more than in 1962. Individuals reduced their acquisition of commercial bank deposits and increased the rate at which they invested in savings and loan shares.

On the basis of preliminary data, it appears that net sales of preferred and common stocks somewhat in excess of \$3 billion were almost offset by purchases of a like amount of government obligations. Net purchases of investment company shares were approximately \$1 billion.

#### *Government finance*

Overall financing requirements of Government were lower in 1963 than in 1962. While State and local governments borrowed a gross total of \$10 billion in 1963—a rise of \$1½ billion—net Federal borrowing totaled \$3½ billion, \$3 billion less than the previous year's pace.

The Federal deficit on income and product account amounted to \$2½ billion in 1963, a reduction of nearly \$2 billion from the 1962 rate. Also contributing to the slowing of Federal borrowing was a modest reduction in Treasury cash balances during 1963; in the previous year, borrowing requirements had been increased by a rise in cash balances.

Federal debt operations during 1963 resulted in a rise in securities due within one year and over 5 years, and a reduction in intermediate term issues. The rise in longer term obligations reflected the extensive use of advance refunding techniques.